Brown Ronnette (DOS)

From: James Geddes <jamesgeddes@mac.com>
Sent: Friday, November 30, 2012 11:07 AM
To: David Stevenson
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Subject: Re: PSC Docket No 12-292 Chesapeake

James McC. Geddes

On Nov 30, 2012, at 9:41 AM, David Stevenson <davidstevenson1948@gmail.com> wrote:

> Your Honor,
> Please find attached the Caesar Rodney Institute Position Paper on PSC Docket 12-292 and associated attachments. An original copy of the paper and all attachments has been mailed to you as well.
> Regards,
> David T. Stevenson
> Director, Center for Energy Competitiveness
> Caesar Rodney Institute
> www.caesarrodney.org
>
> <Natural Gas Expansion CRI Position Paper.docx>
>
> <Comparative Home Heating Cost Sussex County.xlsx>
>
> <UTAH EAC Rate Case Summary.docx>
>
> <Comparative Natural Gas Expansion Strategies.docx>
>
> <12-292 Service List 11-19-12.docx>

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Center for Energy Competitiveness
PO Box 795
Dover, DE 19903
WWW.CaesarRodney.org

To: Mark Lawrence, Hearing Examiner, Delaware Public Service Commission 11/30/2012

RE: Chesapeake Utilities Corp., Natural Gas Expansion Docket 12-292, CRI Position Paper

CRI remains supportive of the effort to develop an alternative pricing strategy to allow the expanded use of natural gas to under-served areas. Only 37% of Delaware residences have access to piped natural gas compared to 49% nationally. Significant energy cost savings are expected for consumers. In addition, temporary jobs will also be created by pipeline construction and by fuel conversion activities. We do have some concerns and recommendations and these are discussed below:

Conversion Management Service – Since this is a new service and optional, we recommend adoption as proposed by CUC.

Conversion Finance Charge – Since this is a new service and optional, we recommend adoption as proposed by CUC.

Expansion Area Charge – We do not believe the proposed EAC will meet the natural gas expansion goals set out in the tariff documents. Further, the EAC will likely lead to a messy tariff process down the road addressing complaints from a small number of Chesapeake customers complaining about being singled out for a perpetual $24/month charge:

1) An independent estimate by CRI of potential savings for customers switching from propane, excluding the EAC and conversion costs, yielded less than half the $1450 estimated annual savings rate determined by the Chesapeake analysis (see attached spreadsheet).
2) The savings estimate includes no consideration for the likely price reduction reactions of the current propane suppliers.
3) Conversion costs appear to be under-estimated with no consideration for termination fees and buried tank removal costs by the current propane suppliers.
4) Payback times for conversion are likely to exceed five years. A University of Delaware study, "Energy, the Environment and Delaware Jobs: Households and Energy Efficiency", page 35, indicates only one third of potential customers will participate if payback exceeds five years.
5) A similar EAC charge ranging from $16 to $30/month was tried in Utah in the nineteen-nineties and it resulted in very low participation rates. The summary of rate case discussions handling complaints from expansion area customers ten years down the road should be mandatory reading for anyone involved in this rate case (see attached summary).

An Alternative Approach - We recommend CUC submit a rate request to raise the Customer Service Charge to provide revenue to cover expansion neighborhoods requiring less than 100' of main per potential customer. We note the CUC presentation on October 15 page 5 stated 41,500 customers were served with 850 miles of main which works out to 108' of main for each customer. This is consistent with the 100' limit of no charge main pipeline in the current tariff. All new customers should have the same benefit of the 75' service and 100' main exemption as existing customers. This very well might lead to a higher cost impact on the Customer Service Charge compared to the proposed Distribution Expansion Service Rate but would be based on long standing principals approved by the Public Service Commission.

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With this change we question whether a Contribution In Aide of Construction will be needed for many of the developments being considered for natural gas access in the next five years. Over 50% of the developments already have nearby distribution mains, have piped propane, or are yet to be built so pipeline installation cost will be low. CRI determined the six current developments along Gills Neck Road will have a density of one home for every 67' of main, considerably less than the 108' of CUC's current distribution system (total of 1082 home sites will require 1.3 miles of distribution/approach main and about 12.3 miles of development main). While we have not studied every development, we suspect many other developments can be reached with less than 100' of main/home.

What other states are doing – See attached review of what other states are doing to reach underserved natural gas areas.

David T. Stevenson
Director, Center for Energy Competitiveness
e-mail: DavidStevenson@CaesarRodney.org
Phone: 302-236-2050
Fax: 302-734-2702

CC: Service List

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of Questar
Gas Company to Increase Distribution
Non-Gas Rates and Charges and Make
Tariff Modifications
)))))
DOCKET NO. 07-057-13
REPORT AND ORDER ON COST OF
SERVICE AND RATE DESIGN

ISSUED: December 22, 2008

SYNOPSIS

The Commission addresses cost-of-service issues, approves revenue spread to classes, and approves pricing to achieve the $11.966 million revenue increase approved in Phase I of this proceeding. Additionally, the Commission approves the elimination of the General Service South (GSS) rate schedule and revises the Extension Area Charge (EAC) calculations and approves in part, the Company's restructuring of rate schedules.

- Pages 12 - 18

D. CHANGES TO EACs

Subsequent to setting GSS rates, the Commission adopted a different method to set rates for the Company's expansion into new service territory. Rather than producing a rate with a fixed time period as in the GSS areas, EACs were developed for each community based, in part, on an assumption of customer growth in the community. An EAC is a monthly, per-customer charge to customers in eight expansion areas in rural communities throughout the state of Utah. The amount of the monthly EAC varies from $16.50 to $30.00 per customer. There are currently about 1,400 customers paying an EAC in addition to regular GS-1 rates. The projected dates for completion of these payments were established based, in part, on customer growth projections. Because the projected growth in many of these communities has not materialized, the expected date has now extended beyond the originally projected date for many of these communities.

1. Positions of the Parties

The Division argues the extension of the payoff date beyond the originally projected date because of slower customer growth is unfair to the customers who have signed up for service and expected to pay the EAC until the original date of payoff was reached. Customers signing up for service under the originally expected payoff dates are dependent on other customers also signing up. In the event other customers do not sign up as originally expected, the entire area falls behind and, as is the case with Brian Head, the payoff date may never be reached.

The Division recommends the Commission change the interest rate used to calculate the payoff of the original balance for expansion area costs. The original rate was 13.86 percent and was based on the Company's pre-tax rate of return at that point in time. In Docket No. 05-057-13, the Commission approved use of the Company's after-tax rate of return which was 9.64 percent at that time. This change made the rate more consistent with GSS rates which were also based on an after-tax rather than pre-tax rate of return. With this change, the projected payoff date was sooner than estimated based on 13.86 percent but still exceeded the originally projected payoff date for many communities. The Division now advocates the rate be set at 6 percent which is the rate Questar is authorized to charge as a carrying charge in the Account 191 balance accrual. It is also the interest rate Questar pays to customers if those customers are required to provide a cash deposit in order to receive service.

Assuming the 6 percent interest rate, five of the communities will achieve payout dates earlier than the original payout date, two communities are estimated to payout later than the original date but much sooner than the current estimated payout date calculated assuming a 9.64 percent interest rate. However, even with a 6 percent interest rate Brian Head is never expected to reach a payoff date given current customer growth expectations.

The Division also recommends customers currently paying a monthly EAC charge should, at a minimum, pay no longer than the date originally estimated, irrespective of whether or not the Company has earned its target rate of return. This recommendation addresses the situation facing Brian Head.

The Division calculates the revenue impact of its EAC recommendations in this case is $24,738. This amount arises from the loss of one year of EAC revenue from New Harmony which results if applying either a 6 percent interest rate or the recommendation communities pay no longer than the original expiration date, which is January 2008 or November 2007, respectively.

The Company supports the Division's recommendation to recalculate the payback period for each of the EAC areas using 6 percent from the date each area came on the system and agrees with the analysis presented by the Division. The Company testifies this analysis is consistent with what was done when the rate of return for these areas was reduced from a pre-tax rate of return, 13.86 percent, to an after-tax rate of return, 9.64 percent, in Docket No. 05-057-13. The Company testifies this is not a refinancing of debt for any of these communities. The obligation for these areas is not to repay the Company or other ratepayers any specific amount, but to pay the rates established by the Commission. The Commission established the expansion area rates, both GSS rates and the EACs, based on analyses that assume an interest rate or rate of return. Changing the assumed interest rate does not refinance anything, but changes the analyses used by the Commission to establish those rates. For both GSS rates and EACs, the Commission relied on analyses to determine the time frame that expansion area customers would pay a premium rate or additional charges. As in Docket No. 05-057-13, the Commission is well within its authority now to revisit these assumptions and recalculate time periods based on a different set of assumptions if the resulting rates are deemed just and reasonable. Thus, the Company argues, all of these interest rates, 13.86, 9.64 and 6 percent, are within a range of reasonableness and have been used in setting rates by this Commission.

The Company contends the Commission must make subjective decisions to balance the interests of all customers and the issues are not black and white. For example, EACs are not designed to recover all of the capital costs the Company actually incurs by extending service into the expansion areas because the charges are based on a minimum system design rather than the system the Company actually builds which includes the potential for growth. This is the same practice that is undertaken when mains are extended to subdivisions anywhere within the Company's service territory. Developers or builders are responsible for paying a contribution in aid of construction ("CIAC") for all the costs exceeding allowances set in the Company's Utah Natural Gas Tariff ("Tariff") governing the extension of mains. The costs used in determining the CIAC are also based on the minimum system to serve those customers even though the Company builds a system that includes the potential for growth.

Mr. Ball opposes the Division's proposal and argues the interest rate used for determining the EAC payoff date should track the Company's cost of capital. Mr. Ball recommends the Commission use the after-tax cost of capital most recently set in its June 27, 2008 Report and Order in this docket.

Mr. Ball argues the Division's proposal is inconsistent with the Commission's order in Docket No. 06-057-T04 because it is not about refinancing the charges over a longer period of time but is simply a lowering of the rate. Mr. Ball states every single dollar not collected in EACs from the communities affected, will instead be collected from ratepayers at large. Mr. Ball argues ratepayers are already paying for the actual costs of expanding plant into the new communities, which is greater than the estimated cost based on a minimum system design and ratepayers have been paying for this at the Company's rate of return, not some other rate. Mr. Ball agrees a developer may be able to pass connection charges in excess of the line extension allowance on to a home buyer in the price of the house, and the homeowner may be able to finance this through a mortgage, but disagrees this is the same debt service that is being covered by all ratepayers which Mr. Ball argues is at the Company's earned rate of return.

Mr. Ball recommends the Commission require the Company to back out the capital costs and interest associated with expansion to the EAC communities from rate base and account for these costs and all EAC revenues separately. Any losses shown to remain should be attributed to the Company which should write off the deficits at the expense of its stock-holder in order to end the charges. Then, EAC charges may be removed. This approach should be taken for future extension areas as well. Specifically, for future extensions, Mr. Ball recommends the Company be required to manage and account for the whole period of the project, as a separate project, so that expenses, contributions to Questar's rate of return, and revenues are distinguishable from the accounts that pertain to ratepayers at large.

2. Discussion, Findings and Conclusions

We last addressed this issue in considering a stipulation by parties in Docket No. 06-057-T04. We then determined the proposed stipulation ran counter to well established regulatory principles of fairness and non-discriminatory treatment of similarly situated customers. We invited the parties to consider several alternatives we identified that neither violate the preferences statute nor offend rate-making principles and invited parties to develop additional alternatives for our consideration.

While not an exact match with our suggestions for an alternative method, the Division's proposal has merit. For example, it does not drop all remaining charges in EAC areas as in the rejected stipulation, but rather shortens the time period for payments. Secondly, it applies the same interest rate for new expansion areas, thus treating similarly situated customers or potential customers, similarly, going forward. The recommended 6 percent interest rate is a commonly used interest rate in ratemaking. Also, as noted in the record, the cost of line extensions in neighborhoods can be pooled and included in the price of the house, meaning a mortgage interest rate may be used in these cases which is similar to the 6 percent rate the Division advocates.

Mr. Ball argues ratepayers at large do not benefit from the facilities built to provide service to the EAC communities and therefore these costs ought not to be shifted to them. We note one of the key drivers in the rate increase granted in this case is for feeder line investment in the Salt Lake area, which EAC communities pay for in the GS-1 rate but from which they receive no direct benefit. We concur with the Company, there is not always a clear line for identifying the amount of investment cost to be shared and allocated across all customers and the amount which is directly assigned. We also take public policy and fairness into account in rendering any ratemaking decision.

In addition, we agree with the Division, the originally projected payoff date should be the latest expiration date for EACs regardless of changes to the assumptions upon which the initial rates are set. Scrutiny of the reasonableness of these assumptions should be made up front and customers in the rural areas, relying on these factors and signing up, should not be individually penalized when the future unfolds differently than anyone expected. We find this a reasonable balance between averaging rates across all customers and directly assigning costs when possible. Based on the foregoing, we approve use of a 6 percent interest rate for determining the payoff date for the existing EAC communities and the latest payoff date for any community shall be its originally estimated payoff date. These dates shall be reflected in the Company's Tariff Section 9.02, New or Additional Service. The Company is also directed to propose language changes in this Section 9.02, item (3) to effect this decision.

SERVICE LIST
(Chesapeake)
PSC DOCKET No. 12-292
As of 11/19/12

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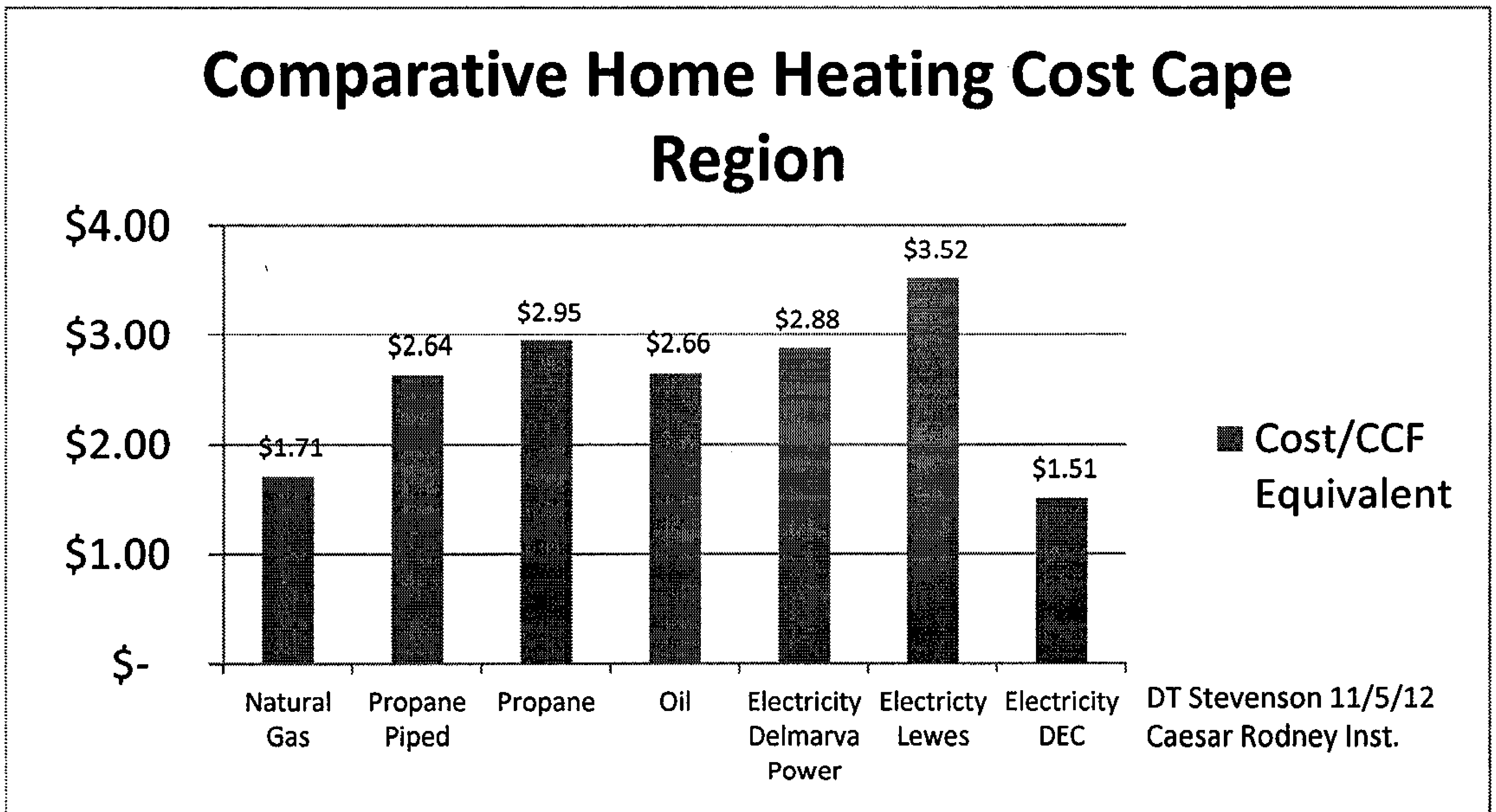
Comparative Home Heating Cost Sussex County

Fuel	Cost/CCF Equivalent	Annual Cost	Premium
Natural Gas	$ 1.71	$ 855.00	
Propane Piped	$ 2.64	$ 1,320.00	$ 465.00
Propane	$ 2.95	$ 1,475.00	$ 620.00
Oil	$ 2.66	$ 1,330.00	$ 475.00
Electricity Delmarva Pow	$ 2.88	$ 1,440.00	$ 585.00
Electricty Lewes	$ 3.52	$ 1,760.00	$ 905.00
Electricity DEC	$ 1.51	$ 755.00	$ (100.00)

<u>Equivalent Energy content</u>

	BTU	Price	Multiplier	Equivalent price
Propane/gal - piped	92,000	$ 2.50	1.054271739	$ 2.64
Propane/gal.	92,000	$ 2.80	1.054271739	$ 2.95
Oil/gal	138,700	$ 3.80	0.699300649	$ 2.66
Electricity/KWh	3,413	$ 0.10	28.41869323	$ 2.88
Electricity/KWh Lewes	3,413	$ 0.12	28.41869323	$ 3.52
Electricity/KWh DEC	3,413	$ 0.05	28.41869323	$ 1.51
Natural Gas/ CCF	96,993	$ 1.71	1	$ 1.71



Based on 500CCF/year average residential gas use for heating, hot water, clothes drying, fireplace,and cooking
NG price based on tariff and 500 CCF/year use, Chesapeake $1.71/CCF excluding expansion fee, including $.03/CCF lower gas price
Oil based on 2012 regular service ($3.80), propane based on 2012 piped ($2.50) and regular service ($2.80)

Inside Energy

Published by the Caesar Rodney Institute
Center for Energy Competitiveness

RE: Comparative Natural Gas Expansion Strategies

DATE : 10/22/12 **David T. Stevenson, Director**

Several states have developed policies to expand natural gas service to underserved areas. A few general comments:

- Programs focused on either expanding transmission and large diameter distribution mains or on local distribution but did not have a balanced approach
- Most programs avoided direct rate increases to fund the programs but instead used bonds, withheld customer refunds, or created new non-residential fees
- Most programs avoided having existing customers subsidize expansion area customers
- Utah used and Expansion Area Charge similar to the Delaware proposal but they had limited impact with few customer subscriptions which led to customer dissatisfaction with long pay-off extensions
- None of the programs were particularly successful but the North Carolina program seemed to have the most success and the Vermont and Maine programs are too new to tell

Transmission and Large Diameter Distribution Programs

North Carolina – created state infrastructure legislation in 1998 which provided up to $200 million in state bonds for natural gas expansion. This was designed to pay the heavy cost to bring service to the one third of NC counties with no gas service, not for local gas expansion. In addition, the utility can apply interstate pipeline company refunds for overcharges run up during rate cases. Pipeline companies can begin charging anticipated new rates 5 months after submitting tariff requests to FERC but final approval, often at a lower rate, may not be approved for years. NC applied $114 million from this source and $188 million from the bond fund to lay pipelines to the un-served counties. The goal of the legislation was met and the fund is closed. Other strategies were legislated but never used. Natural gas availability increased from 19% in 1990 of potential customers to 25% in 2010.
Contact: Bill Gilmore, PUC Staff, 919-733-9563, gilmore@ncuc.net

Georgia – Created a Universal Service Fund in 1998 whereby distributers send funds from about a dozen different sources to the PUC ($25 MM max) to be held in account. The fund generated $12 MM in 2010 with $8 MM used for pipeline extension and $32 MM since inception. The fund was primarily used for extension to under-served areas and to install pipelines in growth corridors in anticipation of future revenue. Money, up to 5% of a utilities capital budget, could be used for mains or for approach mains if costs exceeded the normal formulas used to calculate maximum charges for new service. The fund also paid for low income fuel cost assistance, building new compressed natural gas vehicle filling stations and other uses. Most of the revenue came from unique charges. When gas was de-regulated Georgia required large users with interruptible service to pay a fixed fee for pipeline usage and 95% of that fee went to the fund. Atlantic Gas Light Company, by far the largest gas supplier in Georgia, began selling storage and pipeline services through an asset management affiliate company to third party suppliers and part of that fee went to the fund. The % of homes with natural gas service dropped from 53% in 1990 to 44% in 2010.
Contact: Tony Wackerly, PUC Staff manager of Universal Service Fund, 404-656-4516

Inside Energy

Published by the Caesar Rodney Institute
Center for Energy Competitiveness

Maine – Passed legislation in 2012 authorizing $330 million in state bonds for pipeline infrastructure to expand natural gas service. $275 million will go for loans when utilities put up at least 25% of the cost. $55 million can be used for capital reserve funds. Only 4% of homes in Maine have natural gas service.

Local Expansion for Underserved Areas

Vermont – Vermont Gas Systems with 45,000 residential customers, got PUC approval in 2011 to create an expansion fee by foregoing implementing a 5% fuel reduction ($.0373/CCF) for twenty years to instead put the money in the "System Expansion and Reliability Fund". The fund will grow by $4.4 million a year. New customers will pay the same total rate as existing customers. The cost would be about $26 a year for each residential customer using 700 CCF/year. 15% of Vermont homes have natural gas service.

Utah – In the early 1990's the PSC approved defined tariffs for specific expansion areas ranging from $16.50/month to $30/month to be paid by Expansion Area Customers. The fee was calculated based on an expected cost of the expansion and an expected number of customers signing up for the service. Using these estimates, a pay-off date was estimated (15 to 20 years) but the actual pay-off date depended on how many people signed up for service. Areas with high sign up rates saw early pay-off dates and were generally pleased with the program. However, more expansion areas were under-subscribed and saw extended pay-off dates and petitioned for changes to the rate. See the links below for the discussions held in dockets to address this issue. In the end, the PSC decided to change the original rate of return assumption for these expansion areas (13.64% to 6%) and to recalculate the pay-off date which then averaged 10 to 11 years for 1400 customers. The EAC process still exists but is now based on a 6% IRR. The percent of homes with natural gas service grew from 82% in 1990 to 86% in 2010.

http://www.psc.utah.gov/utilities/gas/07orders/Apr/06057T04oos.pdf
http://www.psc.utah.gov/utilities/gas/08orders/dec/0705713ROocosard.pdf pages 12-15,

Contact: Becky Wilson, Executive Staff Director, 801-530-6716, rlwilson@Utah.gov

Florida – Florida Power & Light can use an Expansion Area Charge for under-served customers using a 4x revenue formula with cost spread out over a maximum of ten years.